



Sharma, Prashant (2009) An investigation into the UK Care Homes Market as an opportunity for Pfizer. [Dissertation (University of Nottingham only)] (Unpublished)

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University of Nottingham

**An investigation into the UK Care Homes Market
as an opportunity for Pfizer**

Prashant Sharma

MBA

Pfizer Summer Internship Individual Project:
An investigation into the UK Care Homes Market
as an opportunity for Pfizer

by

Prashant Sharma

2009

A Management project presented in part consideration for the degree of
Master in Business Administration

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1. Executive Summary

- The UK care home market generated revenues of £11.4 billion in 2008; the market is expected to grow at a healthy CAGR of 7.3% over the period 2008-2012, driven by UK's rapidly ageing population, consolidation and rising fee rates
- The market is dominated by the private sector, which accounts for about 68% of the total market value, and about 74% of the total number of beds in the care home sector
- Total number of beds in the UK care home market has witnessed a decline over the past 14 years, primarily due to an over-expansion in the early 1990s; going forward it is expected to further reduce in the near term as the public sector aims to withdraw from bed supply
- Currently the UK comprises 18,500 homes, dominated by the private sector (accounting for over 70% share), followed by the voluntary segment with about 19% share
- The UK care home market is fairly consolidated at the top end, with the top five players accounting for about 22% of beds in 2008; however, at the bottom end, the market is highly fragmented, with a significant number of homes comprising only one or two beds
- The top four players by number of beds include Southern Cross Healthcare Group, BUPA, Four Seasons Health Care, and Barchester Healthcare; in the voluntary sector Anchor Trust is the largest player, accounting for 6.4% of the total number of voluntary beds in 2007
- In 2008, dementia care in care homes was worth £4.7bn (or 36% of the market).

The old age demographic trends, high occupancy rates and rising cases of dementia indicate an attractive market in care homes. Since care homes are witnessing strong growth, they offer an opportunity for Pfizer to actively market its drugs to this sector.

Additionally, as an unconventional diversification opportunity, care homes also offer opportunity to Pfizer as a strong topline growth/high EBITDA market sector.

2. Introduction

The European teams within Pfizer are facing unprecedented challenges as they operate in a mature industry that is evolving, with many new challenges emerging.

The nature of changes that are taking place within the pharmaceutical industry are resulting in a need for companies to formulate new strategies in order to compete effectively and efficiently in this changing landscape.

Similar to other pharmaceutical companies, Pfizer is facing a drying up of its blockbuster drugs pipeline (which has in the past been a major source of revenue). In addition to this, with growing generic medications availability within the marketplace, this has resulted in a downward pressure on prices of prescription products, resulting in a lowering of the company's already declining margins.

Mindful of these challenges, the Established Products Business Unit commissioned a group of MBA students at the Nottingham University Business School to undertake a summer internship project.

The key objective of the project was to identify whether there were any unmet needs in the marketplace, which could be fulfilled by Pfizer, through new service offerings to their clients. The project would also indicate, where possible, whether the services could be used to generate revenues for the Established Products division within Pfizer. The client wished the project to identify not only services serving unmet needs, but also additional, 'blue-sky', service ideas.

During the same project, the Established Products Business Unit requested the team to look at the opportunity in nursing homes in France and UK.

This report is an extension of the previous report in the way that it delves upon opportunity areas for Pfizer as a service provider.

This individual report attempts to assess how the current conditions of the UK Care Homes market are an attractive opportunity for Pfizer.

2.1. Research Question

The core question this project was aiming to answer was:

How is the UK Care Home market positioned as an opportunity for Pfizer?

In order to understand the market, the following aspects have been looked at:

- *Understand the UK care home market, including key trends (growth rates, population, size of sites etc)*
- *Understand competitive landscape in the UK care home market, and identify key operators in the space*
- *Analyse key characteristics in the care home market, such as independent vs. large chains, and public vs. private providers*
- *Profiles of key care homes in the UK*

2.2. Project Limitations

The project has been desktop research oriented and not based on existing knowledge of Pfizer's exposure to nursing/residential homes in the UK. In that way, the research study independent of Pfizer's specific internal strategic objectives only attempts to throw light on the potential of the market for Pfizer.

3. Methodology

Conducted secondary research to gain an understanding of the UK care homes market as well as the market for FM services provided in the sector. Secondary sources researched included the Internet, company reports, association websites, news search, magazines, and proprietary databases. The report looked at developing an understanding of the major segments in the care home sector, including competitive landscape, key players, and role of government in funding.

In terms of the Care Home market, most of the required information was gathered through the secondary domain Including key trends in growth rates, population, and sites; key operators (including sites, and future growth plans); market shares of private, voluntary and public care homes; public and private care home splits; as well as legislative impacts

Attempt was made to understand the medicines/drugs used by nursing homes by brand and by treatment. However, primary interviews targeted at the same did yield results as most of the service provider, which are private in nature, refused to share information on the same.

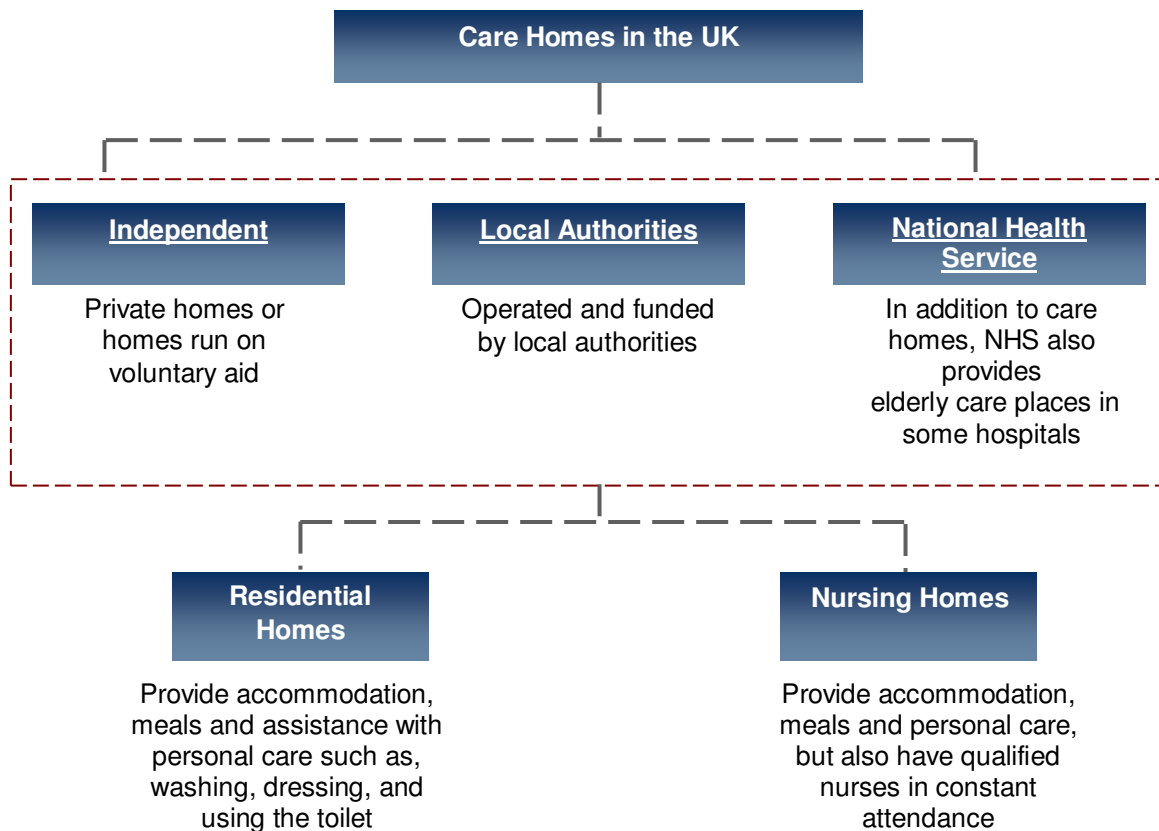
Consequently, the report has restricted its scope to the market analysis of the care home market in the light of the background of elderly healthcare statistics.

4. Market Analysis

4.1. Care Homes Market Definition

The long-term care sector provides long-term residential or nursing home care to those with chronic disabilities or conditions, including geriatric and dementia patients, terminally ill patients and those who are physically disabled. The majority of long-term care in the UK is supplied by private operators.

- Residential care homes are required only to have a qualified nurse available on call
- Nursing homes typically care for those with greater medical needs, and are required to have 24-hour qualified nursing care available
- Several care home facilities have dual registration to allow for the most cost-effective flexibility of care

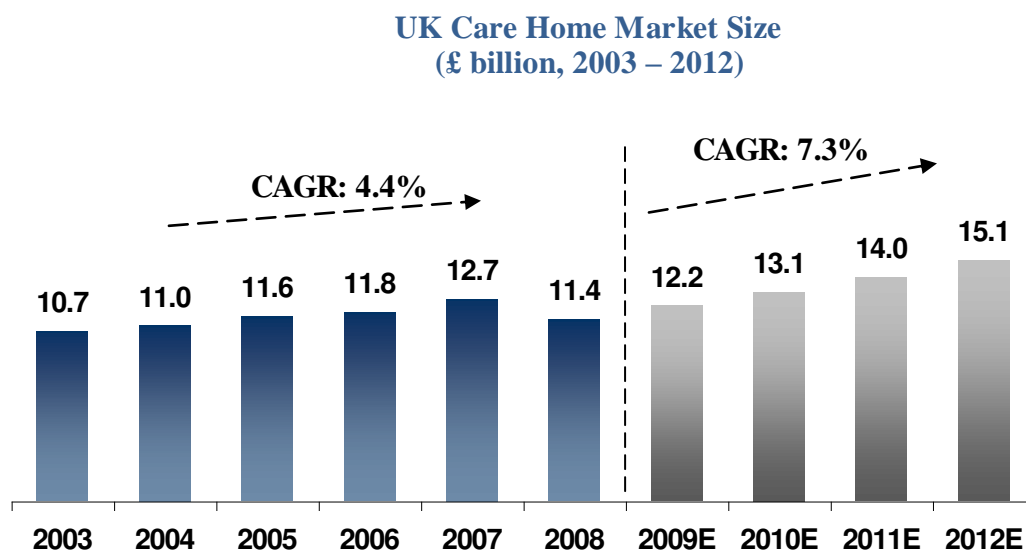


The care home sector provides long-term residential or nursing home care to those with chronic disabilities or conditions, including geriatric and dementia patients, terminally ill patients and those who are physically disabled
Most care homes are for the elders (generally above 65 years of age and mostly disabled); others are for children and adults

Source: Keynote (2008); Deloitte (2008)

4.2. Care Homes Market Overview

4.2.1. Care Homes Market Size



Source: UK Private Healthcare, Keynote (2008)

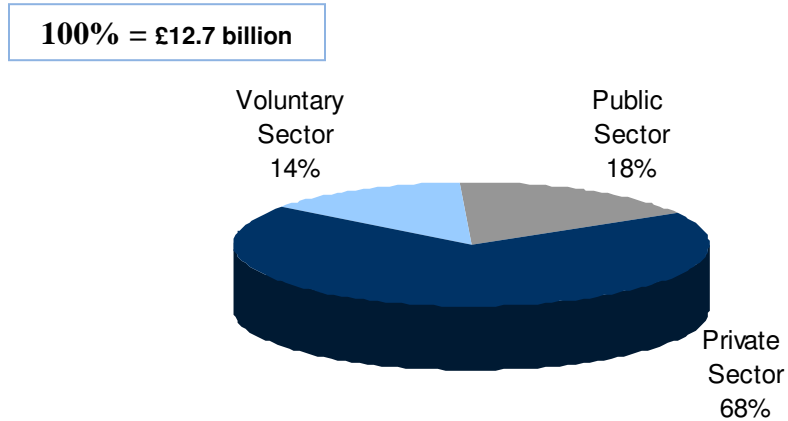
The UK care home market is expected to grow at a CAGR of 7.3% over the period 2008-2012, driven by an ageing society and increasing profitability.

The UK care home market was valued at £12.7 billion in 2007, growing at a CAGR of 4.4% over the period 2003-2007, primarily due to unprecedented levels of investor activity over the period¹. This has been driven by various factors such as increasingly ageing population, a shortage of stock both in the property as well as healthcare sectors, and the potential for high returns in the sector. (Keynote, 2008)

The year 2008 witnessed a drop in revenues for care homes, primarily due to the impact of recession, resulting in tightening budget spend by consumers as well as tightening financials for care homes; however, going forward, the sector is expected to witness a healthy rise, growing at a CAGR of 7.3% over the period 2008-2012¹.

Consolidation (resulting in higher prices paid and shortage of supply), and an ageing UK population are the key drivers for the UK care home market, going forward; these coupled with rising fee rates (in both private and local authorities) and an increase in capital value is expected to provide further impetus to the sector. (Keynote, 2008)

**UK Care Homes Market Size, BY Segment
(% 2007)**



Source: 'UK Private Healthcare', Keynote (2007)

UK's care home market is dominated by the private sector, accounting for about 68% share in 2007; its share has risen from about 63% in 2003, primarily due to the entry of new players, as well as inorganic expansion of major care home providers, which have eaten into the share of the public sector care homes (dropped from 21% in 2003 to 18% in 2008)¹. (Keynote, 2008)

Number of Beds, Occupancy Rates and Share of Public Funding in the UK
(units, %, %, 2008)

#	Region	No. of Beds	Occupancy Rate	Public Funding
1	South Eastern	61,122	91%	43.20%
2	North West	51,339	90%	62.50%
3	South West	43,332	92%	47.50%
4	Scotland	37,955	93%	67.90%
5	Eastern	37,208	93%	49.40%
6	Yorkshire & Humberside	37,192	88%	59.30%
7	East Midlands	34,344	87%	55.80%
8	West Midlands	33,335	92%	62.60%
9	Northern Home Counties	31,947	93%	49.90%
10	Greater London	27,023	89%	64.20%
11	North	26,657	88%	75.90%
12	Wales	22,806	94%	69.00%
13	Northern Ireland & Isle of Man	12,932	93%	80.80%
Average			91%	56.60%

Source: 'UK Private Healthcare', Keynote (2008)

South Eastern, North West, and South West are the three largest markets in the UK, accounting for 23% of total number of beds in 2008. Keynote (2008)

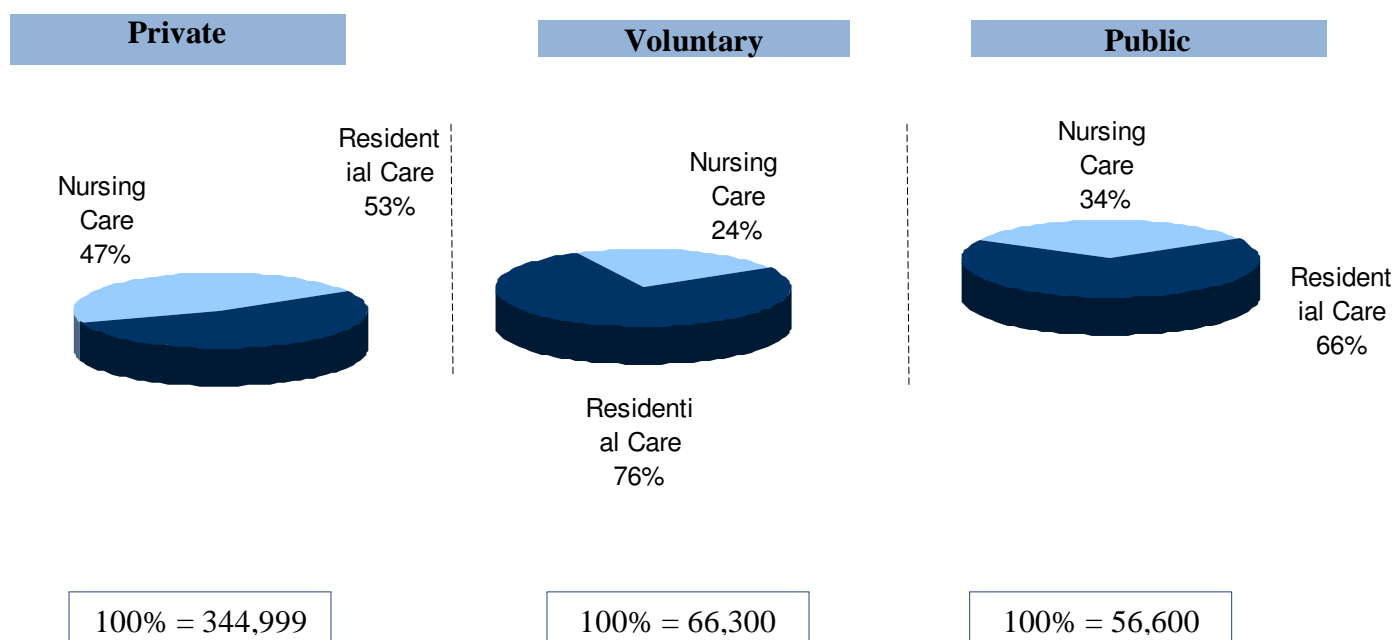
In the regional UK care home market, typically bed capacity is inversely proportional to occupancy rates as well as public funding.

South Eastern (61,122 beds) and South West (43,332) are two of the three largest markets for care homes in the UK, accounting for 23% share of total number of beds in 2008. However, while the Southern region comprises a major share of the market, they have the lowest proportion of occupied care beds supported by public funds, below the sector average of 56.6%. Likewise, while Wales, and Northern Ireland account for the least bed capacity, they benefit from high government funding as well as high occupancy rates.

In 2008, occupancy rates in the two regions were 94% and 93% respectively, higher than the sector average of about 91%.

4.2.2. Care Homes by Ownership and Type of Care

UK Care Home Market, Number of Beds (2007)



Source: 'UK Private Healthcare', Keynote (2008)

The private and voluntary care home sectors are dominated by residential care homes, accounting for 53% and 76% share respectively in 2007.

The independent sector (private and voluntary) accounted for about 88% of total beds in the UK care home market in 2007, of which the private sector alone accounted for a dominating 74% share.

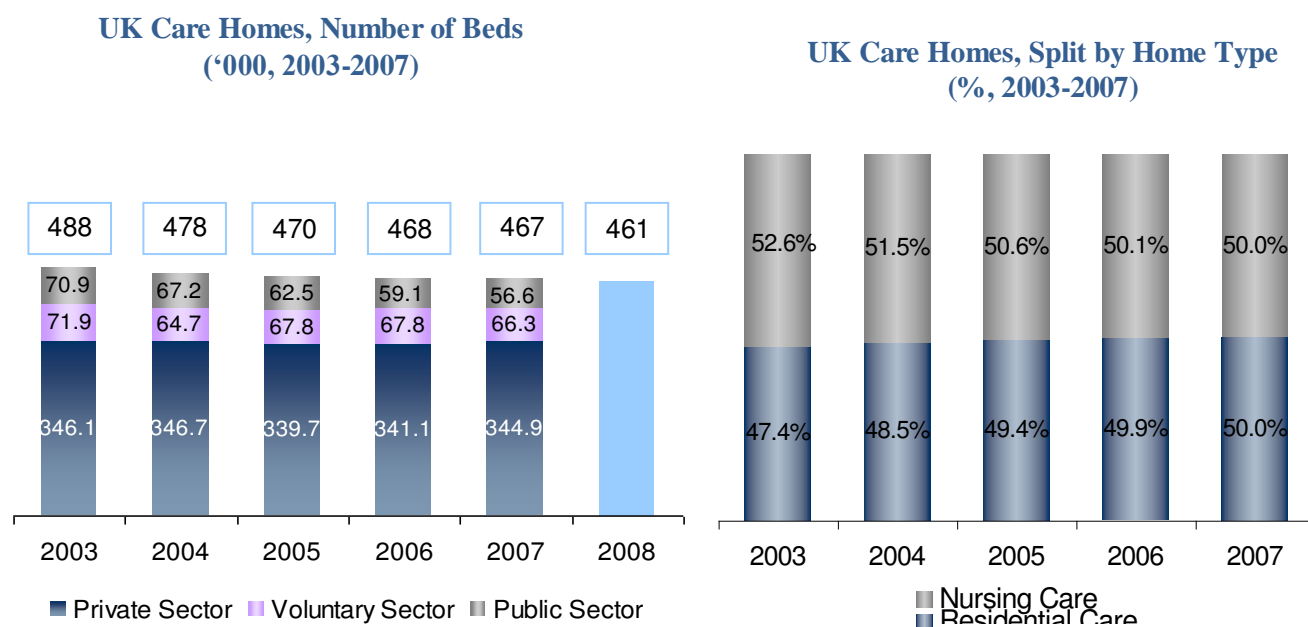
Both private and voluntary care homes are dominated by residential care, together accounting for 57% of the independent care home market in 2007; in the voluntary sector, residential care accounts for three-fourths of the total number of beds². (Laing and Buisson, 2007)

Both, the private and voluntary sector, have witnessed a rise in share of residential care homes as local authorities increasingly look to purchase services from cheaper alternatives.

According to Laing & Buisson, average cost per resident per week for nursing care homes (£665) is about 18% costlier than that of resident care homes (£566), due to the number of qualified staff, complex nature of residents' requirements, and the overall size of the home². (Laing and Buisson, 2007)

In the public sector, local authority homes dominate the total number of beds, with 66% of total beds in the sector; all homes in the public sector provide complete nursing care with qualified nurses in constant attendance.

“Within the private sector, there has been significant transfer from nursing to residential provision over the past few years, as local authorities have sought to make placements in less expensive residential care *rather than in nursing care*.” – **William Laing, CEO, Laing & Buisson (2008)**



Total number of beds has witnessed a period of continuous decline since the early 1990s, primarily due to an over-expansion pre 1993.

Despite an increasing ageing UK population, the number of care home beds in the UK has witnessed a continuous decline since the mid 1990s, across all three sectors (private, voluntary, and public). A key reason for this decline is the over-expansion in the market up until 1993, a period in which the open-ended state-funded income support system generously supported the care

home sector. However, post 1993, with authorities taking over financing of care homes, tighter restrictions implemented on financial eligibility resulted in a continuous bed capacity reduction in the care home market. While the overall bed capacity continues to decline, the private care sector witnessed a resurgence in total bed capacity post 2005, driven primarily by rising demand from an ageing UK population. Both, 2006 and 2007 witnessed an increase of 1,400 and 3,800 beds respectively in the private care sector, post a drop of 7,000 beds in 2005.

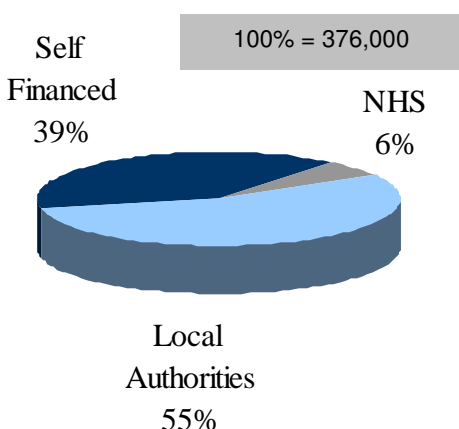
The public and voluntary sectors, however, continued to witness a drop in capacity till 2008; the public sector witnessed an annual average bed capacity drop of about 20% over the period 2003-2007. Going forward, a continued reduction in the number of care home beds is expected over the next five years, primarily due to a decrease in the public sector⁴.

While long term demographic changes are likely to lead to an increase of care bed provision, it is not expected to occur until after 2012⁴.

4.2.3. Means of Care Funding

Social care in the UK is funded through central government funds allocated to the local council; council tax revenues; individuals' contributions to their council care package, and/or to services arranged independently; and voluntary funding. There are national rules for residential care – an individual with assets of more than £22,250 (in 2008/9) is not allowed to receive public financial support. The current system for funding adult social care in England has been criticized as unfair, complex and financially unsustainable; key issues concerning local authority funding include unfairness, lack of transparency, multiple funding streams and age-related funding.

**UK Care Homes Funding in Independent Homes, By Source
(% no. of beds, 2008)**

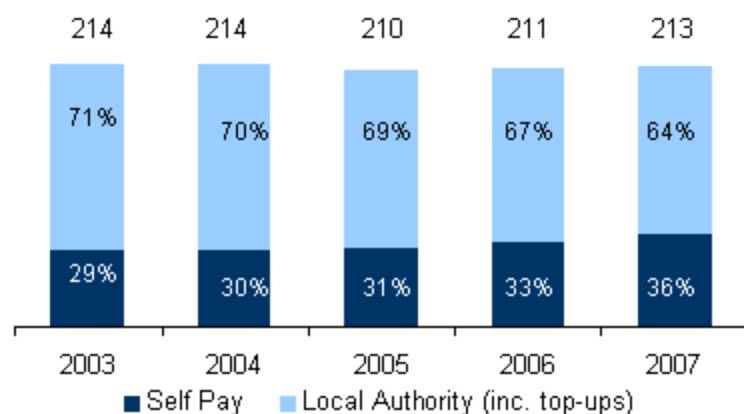


Local authorities remain the main source of funding, supporting 206,000 older and physically disabled residents in independent sector care homes (55% of the total) in 2008, as well as 31,000 residents in their own, in-house provision.

Nearly all private payers are accommodated in independent (private and voluntary) care homes, where they account for as many as 39% of the 376,000 residents. Share of self pay in the independent sector has witnessed a continuous increase over the period 2003-2008, growing from about 33% in 2003.

The remaining residents of private and voluntary homes, plus the 42,000 residents in council run homes and long stay NHS hospitals, are nearly all paid for by the state – either by local councils (the majority) or by the NHS. In 2008, about 146,000 care home residents in the UK paid their fees privately, accounting for 35% of the 418,000 care home residents (independent plus public).

**UK Residential Homes, Sources of Funding
('000 beds, 2003-2007)**

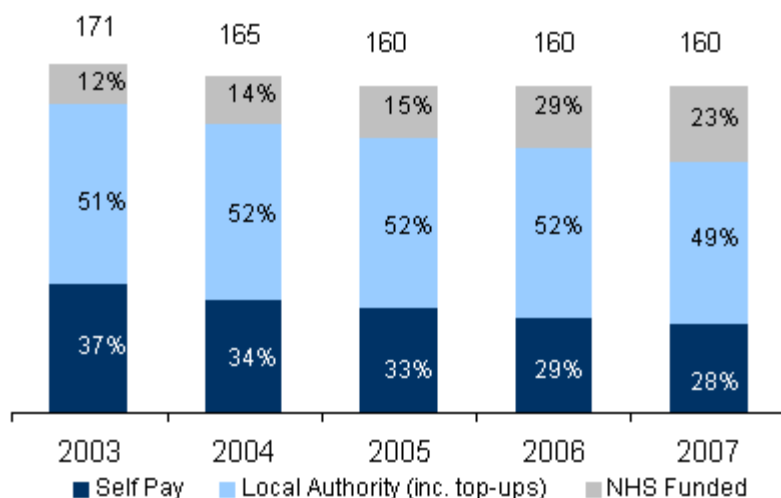


Low level public sector funding and inadequate fees provided by local authorities is a key issue, impacting the demand for care homes in the UK; in the period 2003-2007, both residential as well as nursing homes witnessed a sharp fall in local authority funding

The NHS is a rapidly growing source of funding for independent sector care homes; by 2007 it was estimated to pay for 37,000 residents of nursing homes across the UK (28% of all independent sector nursing care residents)

However, the NHS share falls to only 10% of independent care home residents overall, since no residents in receipt of residential only are NHS funded

**UK Nursing Homes, Sources of Funding
('000 beds, 2003-2007)**



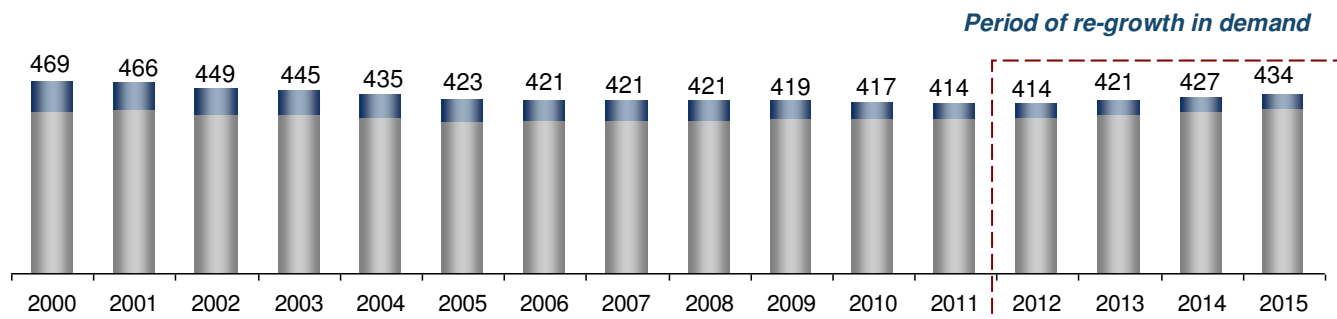
While the role of private payers in residential homes has risen over the period, their funding to nursing homes have witnessed a fall over the period 2003-2007 (from 37% to 28%)¹. (Keynote 2008)

Source: 'UK Private Healthcare', Keynote (2008)

4.3. Key Trends

4.3.1. Rise in Demand Post 2010

UK Care Homes Demand ('000, 1996-2015)



Source: Laing and Buisson (2007, 2008)

Care home demand, dominated by the independent sector, is expected to witness growth post 2010, after a 14 year period of continuous decline

As of 2008, about 421,000 people were residing in care homes, with a majority living as permanent residents; a dominant 89% (373,000) resided in the independent sector (private and voluntary) care homes, with the remaining 11% (48,000) in public sector provision. Running against the tide of population ageing, the number of residents in care homes has witnessed a steady decline over the period 1996-2006 (about 504,000 residents in 1996 to about 421,000 in 2006), primarily due to the increasing availability of non-residential alternatives (such as Extra Care Housing), as well as funding issues by local authorities. However, post a decade of decline, 2007 recorded no decrease in the number of residents living in care homes, indicating resurgence in demand for care homes in the UK⁴.

(Laing and Buisson, 2008)

Going forward, according to Laing & Buisson, volume of care home demand in the UK is expected to decrease marginally over the next four years (from 420,000 occupied places in 2008, to about 414,000 by 2011), primarily due to a decline in public sector supply..

Share of the public sector in total demand is expected to drop from 11% in 2008 to about 7% by 2012, and a further 6% by 2015, as local authorities and the NHS aim to withdraw from the supply (though not funding) of long term care. However, post 2011, total demand is expected rise at a CAGR of about 1.2% till 2015 (about 434,000 beds), driven by a high growth in supply within the independent sector, expected to offset the rapid decline in public care home provision³. (Laing and Buisson, 2008)

The independent sector care homes are projected to increase from 374,000 in 2007 to 378,000 by 2012 and 403,000 by 2015⁴. (Laing and Buisson, 2008)

Projected Demand for Elderly Care⁵

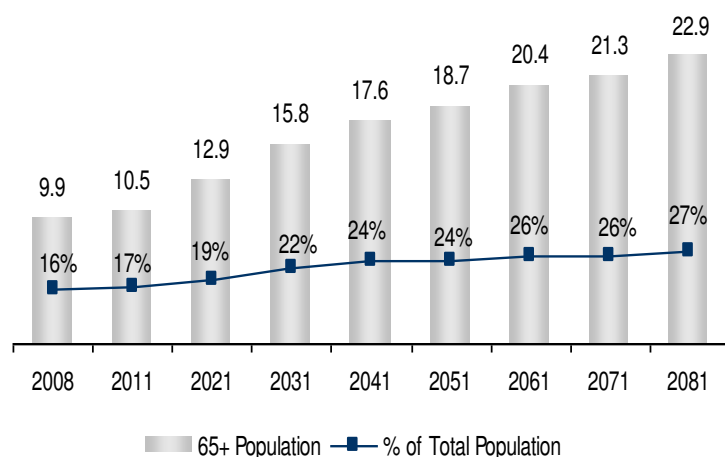
	Population 2009	Percentage of Population Needing Care	Required Capacity 2009	Anticipated Capacity 2014	Anticipated Capacity 2019	Anticipated Capacity 2024	Anticipated Capacity 2029
65 - 74 years	22,541	0.89%	201	221	231	241	269
75 - 84 years	14,913	4.34%	647	661	683	765	819
Over 85 years	5,978	17.42%	1,041	1,234	1,468	1,598	1,725
Total	43,432		1,889	2,116	2,382	2,604	2,813

Source: The Laing & Buisson "Care Of Elderly People" UK Market Survey 2007/2008

4.3.2. Ageing UK Population

A rapidly growing 65+ year-old population in the UK is expected to drive demand for care homes in the long term.

UK 65+ Population, % of Total Population (million, %, 2008-2081)



UK's rapidly ageing population is one of the key drivers for care home demand in the country, as currently over 1% of the 65-74 year old population and over 20% of the 85 and over population live in care homes (either private, voluntary or public).

The number of people aged 65 years and over is expected to rise by nearly 60% in the next 25 years - from 9.9 million in 2008 to over 15 million in 2031; subsequently, the percentage of the total population over 65 is predicted to rise from 16% in 2008 to about 22% in 2031, and about 26% in 2071.

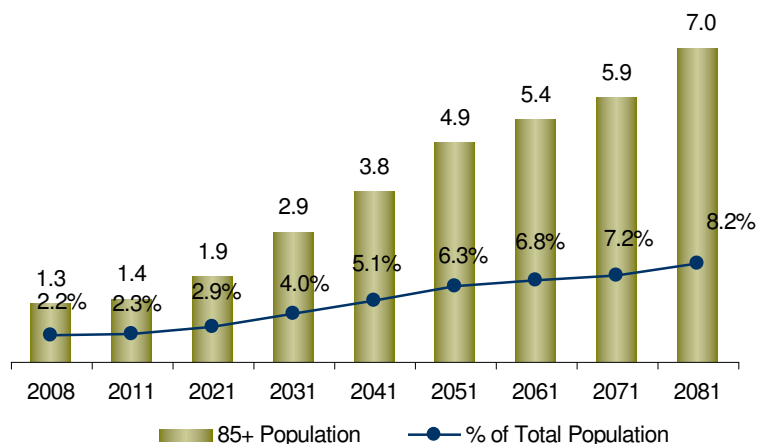
(National Statistical Office, 2009)

Source: UK Government Actuary Department; National Statistical Office

The number of people over 85 in the UK is predicted to double in the next 20 years and treble in the next 30; the total number of centenarians (100+ years) is expected to rise even more sharply, trebling in the next 20 years and quintupling in the next 30 years.

This sharply rising old population in the UK is expected to put major pressure on the UK care home market, due to an already high occupancy rates (over 90%), and a short term decline in total supply of care home beds, resulting in a potential demand supply gap.

UK 85+ Population, % of Total Population
(million. %. 2008-2081)



Source: UK Government Actuary Department; National Statistical Office

In light of this, the UK care home sector is expected to witness increased participation by private players as well as greater funds provided by the public sector, in order to reduce the demand supply gap, resulting in a growing care home market in the long term. (National Statistical Office, 2009)

Fact file for Older People in the UK⁶

Long-term illness

- Over two thirds (69%) of people aged 85 and over in the UK have a disability or limiting long-standing illness. For those aged 65-74, the figure is 40% and for people aged 75-84, it is 56%
- 37% of people in Great Britain aged 65-74 and 48% of those aged 75+ have a limiting longstanding illness
- Men in the UK can expect to live their last 6.8 years with a disability. For women, the average is 9.1 years

Sensory impairment

- In the UK 42% of people over 75 will develop cataracts, and almost 50% will have some symptoms of age-related macular degeneration
- 28% of people aged 65+ have difficulties with their eyesight
- 55% of people aged 60+ are deaf or hard of hearing

Strokes

- There are over 100,000 first strokes every year in the UK, and 90% of these affect people over 65 years

Mental Health

- 1 in 3 people who die aged 65 or over have dementia
- Nearly 700,000 people are estimated to be suffering from dementia in the UK in 2007 and, by 2025, the number is expected to rise to one million. By 2051, it is projected to exceed 1.7 million
- Dementia affects 1 person in 5 over 80, 1 in 4 over the age of 85 and 1 in 3 people over 90
- Depression affects 13-15% of people over 65 living in the community, and 40% of older people in care homes
- There were 790 suicides amongst people aged 65+ in the UK in 2006 – 14% of all suicides amongst those 15 and over

Source: Phil Rossall, Older People in the UK, Help the Aged (September 2009)

4.3.3. Rise in demand for Dementia Care

According to Laing & Buisson's Care of Elderly People Survey 2009, the demand for care home places is set to grow. The majority of people living in care homes have some form of dementia making it the key focus for the sector. It is essential that staff get the training they need to provide good dementia care.

Numbers of older people (taking the conventional definition as aged 65 or over) – and particularly the numbers of very old people (aged 80 and above) – will increase substantially over the next fifty years in all countries covered by this report, although rates of ageing varies greatly between countries. In England in 2005, 16% of the population were aged 65 or over and 4% aged 80 or over. By 2050 it is expected that the number of people aged 65 or over will grow from 8 million to almost 15 million (by which time this number will represent 25% of the projected total population), while the number aged 80 or over will grow from 2 million to just over 6 million (equivalent to 10% of the total population).

Dementia Prevalence Rates⁷

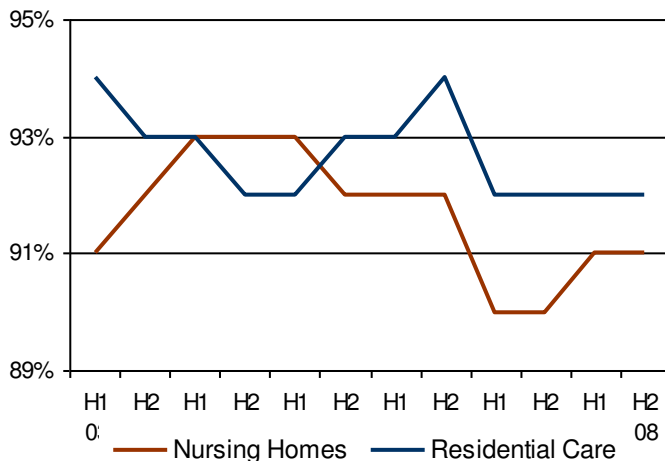
Age group	Population with dementia (%)
65–69	1.3
70–74	2.9
75–79	5.9
80–84	12.2
85–89	20.3
90–94	28.6
95 and over	32.5

Source: Knapp et al (2007)

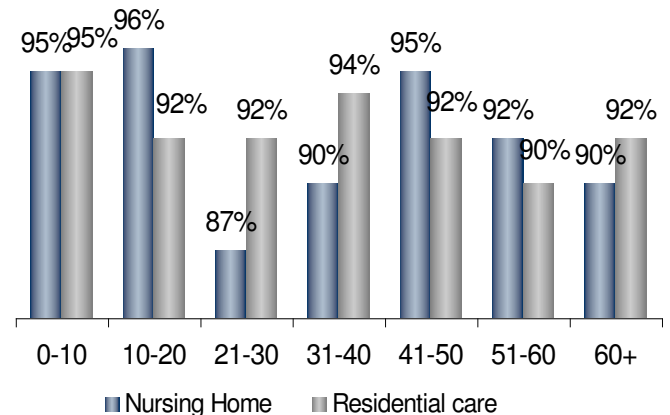
- In 2006, a large survey of BUPA care homes in the UK identified that over two-thirds of residents had neurodegenerative diseases such *as dementia, stroke or Parkinson's* disease. The survey included both care homes providing nursing care and care homes simply offering personal care⁹. (Owen, Meyer, Bentley, Heath, Goodman, April 2008)
 - **Eight out of ten residents had at least one form of mental impairment, two-thirds were diagnosed as incontinent and nearly half were both incontinent and unable to move around without help.** Importantly, for over 90 per cent of residents, medical problems and associated disability, rather than general frailty and social needs, instigated the move into a care home, ie their needs were primarily health-related rather than social.
- As of Q1 2009, 19% of the UK's care home capacity for older people is dedicated to dementia care, 11% in homes catering for dementia only and 8% in dedicated units within multiclient homes. With the proportion of care home residents with diagnosable dementia at 59%, most residents with dementia and cared for in non-specialist settings that 17% of delivered domiciliary care hours are specifically for dementia needs¹⁴. Laing and Buisson (February 2009)
- Addressing actual demand for dementia care beds, 59% of older care home residents are believed to have diagnosable dementia. But the proportion where dementia is a known cause of admission is much lower, at about 35% of residents according to a census of BUPA's care home portfolio¹⁴.
- In 2008, Dementia care in care homes was worth £4.7bn (or 36% of the market).¹⁴ Laing and Buisson (February 2009)

4.3.4. Stable Occupancy Rates

**UK Care Homes, Occupancy rates
(%, H1 03-H2 08)**



**UK Care Homes Occupancy Rate, by Home Size or
Number of Beds
(%, H2 08)**



Source: Colliers Cre, 2009

Occupancy rates for both nursing and residential care have remained stable in the 2003-2008 period, in the 90-94% range

Occupancy rates for both nursing and residential care have remained stable in the 2003-2008 period, in the 90-94% range¹⁰. (Colliers Cre 2009)

Occupancy levels within both nursing and residential homes have remained fairly stable within the 90-94% mark in the period - 1H 03-2H 08. Going forward, the rapidly ageing UK population is expected to increase the average occupancy for both nursing and private homes, above the five year average of 93% (2003-2008).

Moreover, the escalating burden placed on the State in terms of funding provision, combined with increasing demand for dementia care, is expected to further drive up occupancy rates in the near and long term.

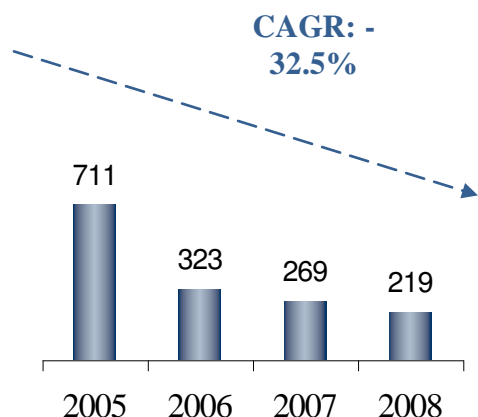
Variation by Size of Care home – There is stark disparity in occupancy levels across different sizes of care home.

- By size of care home, nursing homes that have between, 11 to 20 and 41 to 50 beds experienced the highest occupancy levels in 2H 2008, whilst residential homes with zero to ten beds enjoyed the highest proportion of residents.
- Nursing homes with between 21 and 30 beds experienced the lowest levels of occupancy in the second half of 2008¹⁰. (Colliers Cre 2009)

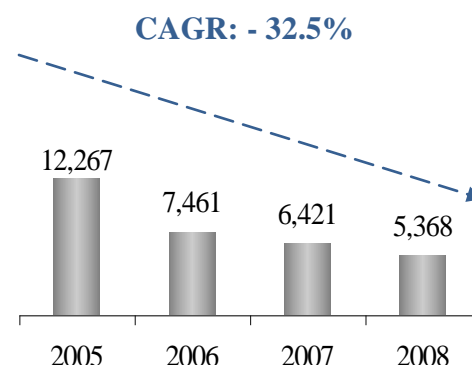
Regional variation in occupancy levels was not as pronounced as in previous years, with the East Midlands scoring the highest average levels at 94%, and Greater London the lowest at 90%¹⁰.

4.3.5. Declining Care Home Closures

UK Care Homes Closures
(number of homes, April 2005-April 2008)



UK Care Homes Closures
(number of beds, April 2005-April 2008)



Of the total closures in 2008, a majority 73% was accounted for by the residential care sector, up from about 63% in 2004

Source: Laing & Buisson, 2006-2008

Total number of care home closures has witnessed an annual average drop of about 35% over the period 2005-2008.

Care home closures in the UK, which five years ago were taking place at an alarming rate, continue to diminish, reducing from 711 homes (12,267 beds) in 2005 to 219 homes (5,368 beds) in 2008⁴.

Total number of care home closures has witnessed an annual average drop of about 35% over the period 2005-2008

Total number of care home closures witnessed an annual average decline of 32.5% over the period 2005-2008; subsequently total number of bed closures witnessed an annual average decline of about 24% over the same period⁴.

Gross national attrition rate of the stock of care home beds has reduced to 1.3%, compared with a maximum attrition rate of 3.8% at the peak of care home closures in 2000⁴.

Furthermore, the downturn in the residential property market in 2008 is expected to be a further disincentive for operators of small scale converted homes to exit the market, providing further impetus to declining closures.

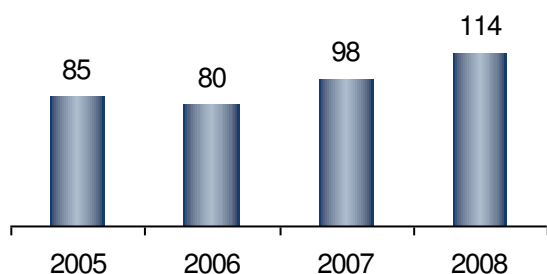
The drop in closures reflects higher fee rates and profitability as well as the diminished stock of smaller care homes, which are most vulnerable to financial pressures.

As a result of sharply declining closure rates in the UK care home sector,

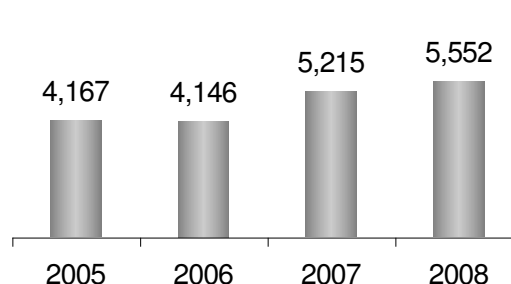
care home closures are no longer considered a threat to availability of services, other than in a handful of locations.

4.3.6. Rising Number of New Registries

UK Care Homes New Registries
(number of homes, April 2005-April 2008)



UK Care Homes New Registries
(number of beds, April 2005-April 2008)



Source: Laing & Buisson, 2006-2008

Post a drop in 2006, number of new care home registries in the UK have witnessed a rise in 2007 and 2008, driven primarily by rising occupancy rates

Within the UK care home market, new registries have been dominated by the nursing homes sector, accounting for 54-56% share over the period 2004-2008.

In 2008, number of new beds was greater than number of closures.

Post a drop in 2006, number of new care home registries in the UK have witnessed a rise in 2007 and 2008, driven primarily by rising occupancy rates. New care home registrations in the UK have witnessed a rise over the period 2005-2008, rising to 114 homes with 5,552 beds in 2008, from 85 homes (4,442 beds) in 2005, driven primarily by rising occupancy rates and unprecedented price rises in the sector⁴. (Laing & Buisson, 2008)

However, while new registries in the UK care home market continue to rise, rate of registrations have remained below that of closures, both in terms of homes and number of beds, putting pressure on the bed supply in the sector.

Going forward, the near term is expected to see a further increase in the new registration rate, as development pipelines in progress feed through from several of the larger care groups as well as local entrepreneurs

This resurgence in development activity is focused primarily on the private pay market, where fee rates are significantly higher than those for council supported residents

According to a survey by Laing & Buisson in 2008, 93% of group

operators have plans for 'new build' and 87% plan extensions on existing sites, concentrating on the strong self funding market and locations where local authorities pay adequate fees. This is to further drive new registries in the UK care home market⁴.

4.4. Competitive Landscape

4.4.1. Nature of companies

Major Providers of Long-Term Elderly Care (2008)

For-Profit Companies	
UK publicly quoted	2
Non UK quoted	1
Private company	235
Individual/ partnership	105
Provident association	1
Not-For-Profit Companies	
LA homes organisation	12
Other organisation	113

Source: (Colliers Cre 2009)

The UK care home market comprises 344 profit companies and 125 non-profit companies, with only two companies listed on the LSE

The UK care homes market comprises over 18,500 homes, dominated by the private sector (accounting for over 70% share), followed by the voluntary segment with about 19% share. In 2008, the sector comprised 344 major profit providers (comprising three beds or more) in this sector, and a further 125 not-for-profit operators; these major providers comprised about 5,120 homes, accounting for about 28% of total care homes and close to 55% of total beds in the UK care home market value¹¹. (Deloitte, 2008)

Of the major providers, for-profit-companies (comprising public and private companies, individual/partnership run associations, and provident associations) accounted for about 50% market share in 2008, rising from about 31.7% in 2000, depicting high levels of corporatization in the UK care home market.

Major providers typically provide complete nursing home facilities, including qualified nurses in constant attendance; in contrast; the residential sector is dominated typically by small homes (one to two beds), which account for about 90% of the UK residential care market.

The last decade has witnessed a continuous decline in number of residential care and nursing homes in the UK, driven by factors such as low local authority fee levels, increase in regulations and high land value

Publicly Quoted Providers

From a peak of 20 in 1990, the number of UK publicly quoted operators of care homes for older people has dropped to only two companies with a full listing on the London Stock Exchange, primarily due to a poor profit performance and a share price drop below net asset values for most listed companies¹⁰. (Colliers Cre, 2009)

The two companies are Southern Cross Healthcare (UK's largest care home group), and Care UK, a public sector outsourcing company that seeks long-term contract business from local authorities and the NHS.

Going forward as well, most analysts see little prospect for the foreseeable future of a resurgence of stock exchange-quoted care home groups.

4.4.2. Top Five UK Care Home Players

(As of February 2009)

Care Home Operator ¹³	Number of Care Homes	Number of Beds	EBITDAR/Revenues (2007) ¹⁰
Southern Cross Healthcare	727	37,080	29%
Four Seasons Healthcare	446	21,154	25%
BUPA Care Homes	302	21,360	26%
Barchester Healthcare	171	11,290	17%
Craegmoor	234	4,700	20%

Source: (Colliers Cre 2009, King Sturge, 2007)

The market is fairly fragmented with the top five players accounting for 22% of total UK care home beds in 2008

Providers of care homes in the UK range from large for-profit companies to small businesses and voluntary sector/charitable organisations; some local authorities also run care homes in the UK. The average care home in the UK has about 23 beds, although this conceals a wide distribution, from those with only two to three beds to homes with over 100 beds.

The UK care home market is fairly consolidated at the top end, with the top five players accounting for about 22% of beds (growing from about 15% in 2003) and 10% of number of homes in 2008¹¹. (Deloitte, 2008)

At the bottom end, the market is highly fragmented, with a significant number of homes owned and operated individually, and comprising one or two beds; the next ten players accounted for 4% of the total number of beds in 2008¹¹. A majority of the middle market operators act as “feeders” for the large groups, repeatedly developing and selling smaller groups; their strategy is typically to build up a sizeable business through the acquisition of individual homes or small groups with the aim of a multiple arbitrage upon exit, most likely to one of the larger players.

The bottom end of the market as witnessed several new entrants, realising equity from the housing market and switching from other sectors; however, the lack of stock, level of demand and increase in prices has made it difficult for these companies to get low cost ownership assistance.

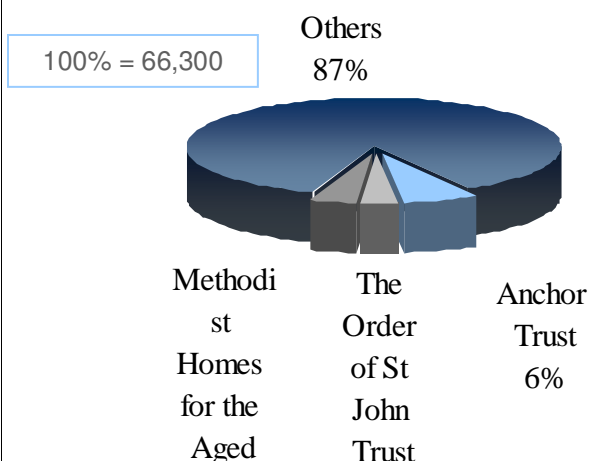
Not-for-profit organisations (voluntary homes) comprised 59,000 care home beds at the end of 2008, for which about 50,000 were owned by 125 major players (with three beds or more); most of them focus on residential rather than nursing care. One of the traditional strengths of not-for-profit, voluntary organisations is their experience in working with local authorities, often rooted in shared values, a region where private players are still weak¹¹.

A further advantage of not-for-profit organisations is access to capital at a lower cost than what for-profit providers have to pay; moreover, in some cases, such as charities, development capital may come entirely free from donations.

Going forward, not-for-profit organisations stand to further benefit from their close relationships with local authorities, as the latter seek sustainable long term partnerships with independent sector bodies to replace their in-house provision of residential care.

UK Voluntary Care Home Market, Number of Beds (% , 2007)¹¹

- Concentration of ownership by major players is significantly higher in the voluntary or ‘not-for-profit’ sector than in the private sector; major providers accounted for about 41% of all non-profit care homes and 85% of total beds in 2008¹¹.
- However, the market is highly fragmented with the largest three players accounting for about 13% of total beds, and only 3% of the total number of care homes in the voluntary care home market, in 2007.
- The largest player in the voluntary care home sector is Anchor Trust, which operated 100 homes (with 4,276 beds) in 2007.



The voluntary care home market is highly fragmented, with the top three players accounting for 3% of total non-profit homes in the UK, in 2007.

Source: Deloitte (July 2008)

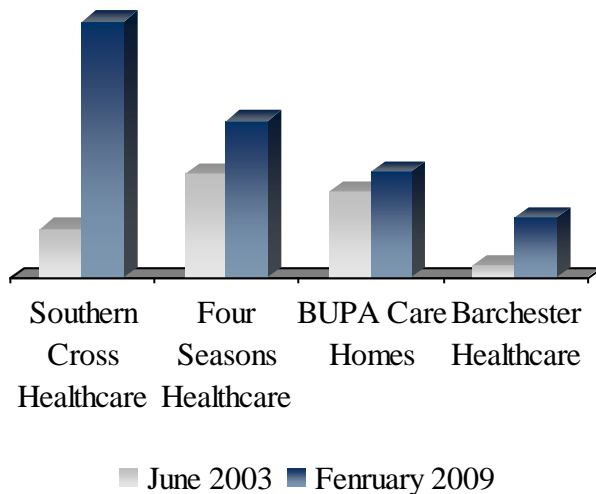
Top 32 UK Care Home Players, Ranked by Number of Beds¹²
(As of February 2009)

Company	Homes	Beds
Southern Cross	727	37,080
Four Seasons Health Care	446	21,154
BUPA Care Homes	302	21,360
Barchester Healthcare	171	11,290
Craegmoor	234	4,700
Bondcare	88	4,892
Anchor Trust	104	4,578
Caring Homes	117	3,130
Order of St John Care Trust	74	3,250
MHA Care Group	62	2,513
Care UK	78	3,170
Shaw Healthcare	75	2,352
Abbeyfield	85	2,294
Leonard Cheshire	99	1,953
Exelcare Holdings	37	1,767
Sanctuary Care	53	1,630
European Care	37	1,600
CLS Care Services	38	1,460
Quantum Care Ltd	27	1,448
Paragon Healthcare	186	1,439
Runwood Homes	25	1,438
Mimosa Healthcare Group	30	1,416
Hallmark Healthcare	24	1,468
Somerset Care	43	1,304
Meridian	26	1,296
Prime Life	44	1,112
The Fremantle Trust	43	1,114
Prime Life	44	1,111
Executive Care Group	23	1,069
Maria Mallaband	31	1,046
Guardian Care Homes	29	1,033
Carebase	14	822

The top 32 care home providers accounted for 18% of total care homes and 32% of number of beds in the UK care home market

Source: Healthcare Business (July/ August 2008)

Top Four UK Care Home Players, Number of Homes (June 2003, February 2009)¹³



The UK care homes market has witnessed high levels of M&A activity in the recent past, predominantly by the major players

Source: King Sturge, 2007; Company Websites

The care home market in the UK has seen a significant move over recent years towards the consolidation (via acquisitions) of ownership into the hands of fewer and larger ownership organisations.

With limited growth achievable through fee rate rises, development acquisition of new beds has been a key growth driver for care companies in the UK in the recent past.

The top four players, including Southern Cross Healthcare Group, BUPA, Barchester Healthcare, and Four Seasons Health Care, have been the key drivers for consolidation, through acquisitions of leased businesses as well as freehold going concerns.

Going forward, with declining M&A activity, development activity has started to increase, as the “dynamics” increasingly make development a viable route, and is likely to be fuelled further by a significant forecasted increase in the elderly population

The top five players’ share of total care home beds has risen from 15% in 2003 to 22% in 2008, primarily due to inorganic growth¹¹. (Deloitte, Laing &Buisson, 2008)

The primary reason for increasing consolidation is the rising attractiveness in the market, due to rising occupancy rates and unprecedented price rises; over the past five years, average occupancy levels have been in excess of 90%, while over the past seven years average fee rates have risen at a faster rate than RPI.

However, after a period of rapid consolidation the rate has slowed, as the pool of homes suitable and available for corporate acquisition has largely been exhausted.

Going forward, future deals within the care sector are likely to be driven by the major players, who are keen to continue their consolidation of the elderly and specialist care markets by expanding their geographical footprint.

“There continue to be strong forces driving consolidation in the care home market, and we can expect the corporates’ market share to continue to grow in the future. However, the care home sector is still fragmented compared with other sectors of the economy. At the current slow rate of development of new capacity, small businesses will continue to have a major role for the foreseeable future.” – William Laing, CEO, Laing & Buisson (2008)

Recent Acquisitions in the Care Home Market¹⁴

Date	Target & Sector	Acquirer	Enterprise Value £m	Exit Multiple Enterprise Value / EBITDA
Sept-08	Carewatch	Lyceum Capital	37	11.9 times post tax profits for the year ending 31 December 2007, representing eight times current year EBITDA
Aug-08	Care Aspirations	GI Partners	N/A	GI Partners paid nine times current year EBITDA
Aug-08	Lodestone Patient Care	Alliance Medical	N/A	N/A
July-08	Craegmoor	Advent International	290 (unconfirmed)	8.7 times EBITDA as reported in statutory accounts to December 2007
May-08	Beacon Care Holdings	CareTech Holdings plc	22.5	20.4 times historic EBITDA of £1.1 million for the year ending 30 December 2006
Mar-08	The Cromwell Hospital	BUPA	90	10.7 times EBITDA of £8.4 million for nine months to September 2007
Mar-08	Cygnat 2002	Cygnat 2008	360	14 times projected EBITDA for 2008
Feb-08	Classic Hospitals	Spire Healthcare/Cinven	145	Reported to be approximately 14 times EBITDA for year end 2007
Feb-08	Nine Nuffield hospitals	General Healthcare Group	140	12.7 times reported current EBITDA of £11 million
Nov-07	Complete Care Holdings Ltd	Claimar Group	Care 33	11 times current EBITDA of ‘in excess of £3 million’ as reported by Sovereign Capital at the time of sale
June-07	BUPA Hospitals Limited	Cinven	1440	14 times projected EBITDA for the year ending 31 December 2007

Source: Community Care Market News (February 2009)

4.

In 2008, Care Quality Commission (CQC) was established by the Health and Social Care Act 2008 (HSCA) as the independent health and social care regulator for the UK, and was ordained with enforcement powers to act under the HSCA from 1 April, 2009

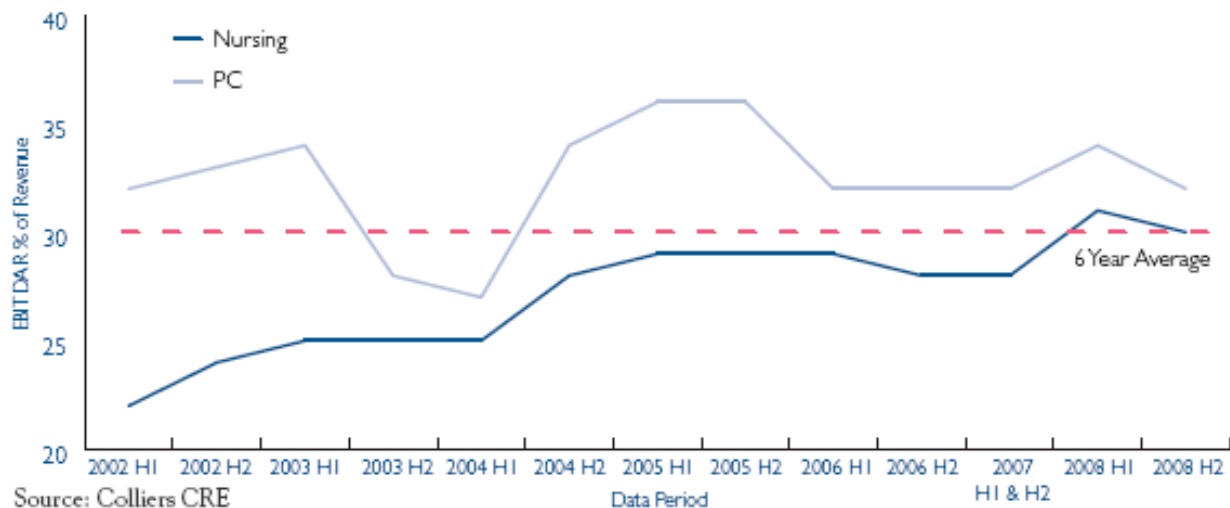
The commission will regulate healthcare and adult social care provided by the NHS, local authorities, private companies as well as voluntary organisations; it also has the authority to protect the rights of people detained under the Mental Health Act. CQC replaced the Commission for Social Care Inspection (CSCI), the Healthcare Commission and the Mental Health Act Commission, all of which have ceased to operate since the inception of CQC¹⁵.

With the inception of the CQC, resulting in more stringent operational regulation, as well major rises in fines in the UK care home market, small and mid sized players (that typically operate on small budgets and unable to meet all regulatory standards) may be negatively impacted.

This shall put greater pressure on smaller players and may further fuel consolidation the medium term.

Key Financial Metrics for Care Homes in the UK

EBITDAR as a Proportion OF Revenue, 2002 H1 - 2008 H2

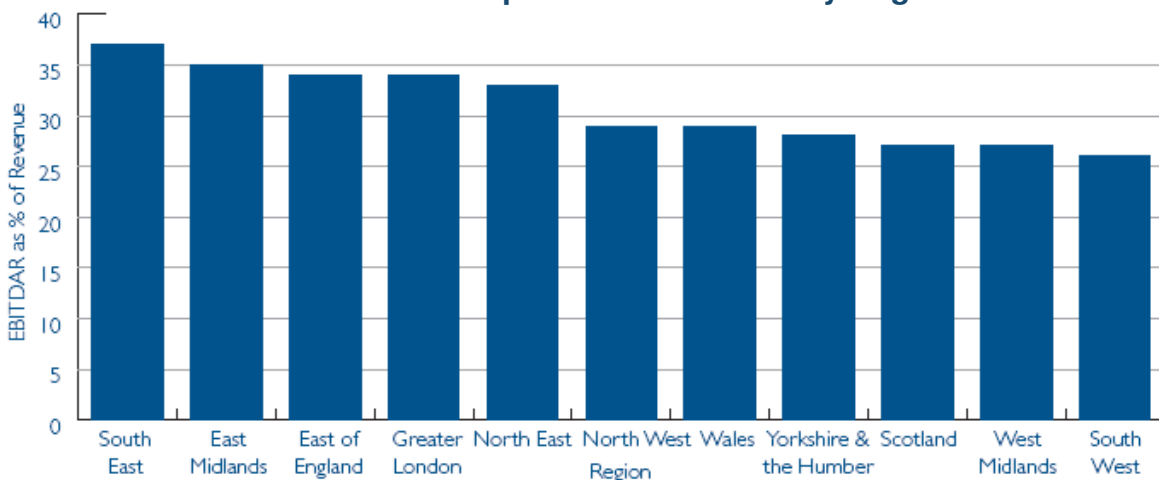


EBITDAR for care homes at an average has been a little above 30% during the 2002-2008 period. This indicates fairly high profitability for the UK care home sector.

EBITDAR as a proportion of total revenue (net profit) fell for both nursing and residential homes in the second half of 2008. Residential homes have consistently outperformed nursing homes in terms of profit margin since 2002 H1, although the disparity between the two types of home has decreased over recent years.

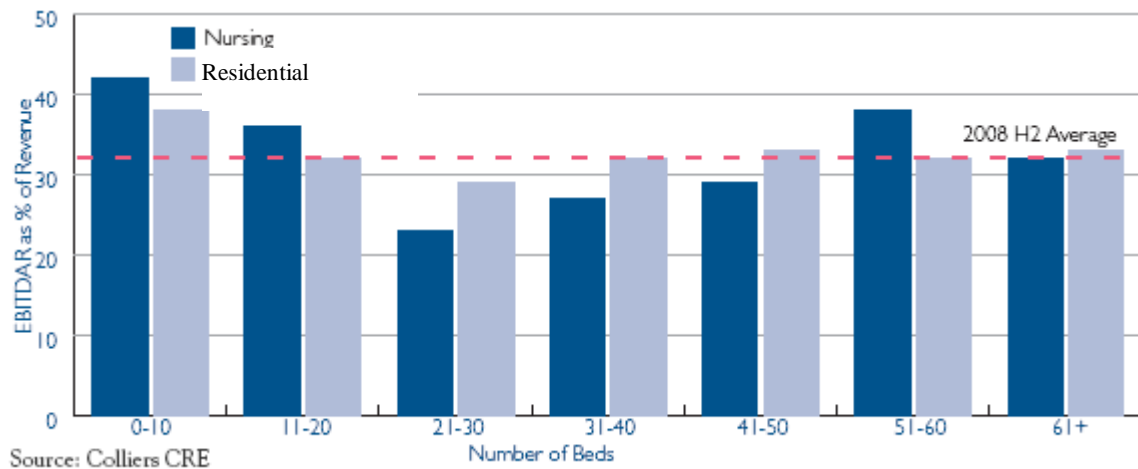
Figures recorded for residential and nursing homes in the later half of 2008 demonstrate that homes are currently outperforming the six year average, albeit only marginally in the case of nursing homes. The average annual profit per bed for nursing homes in 2008 H2 was £8,600, whilst beds within residential homes were less profitable at £6,900 per annum. The higher weekly fees charged by nursing homes would account for this disparity¹⁰. (COLL I ERS CRE, 2009)

Ebitdar as a Proportion of Revenue by Region



There is some regional variation in profit margin. Care homes examined in the South West were the least profitable in 2008 H2, with the average profit margin standing at 25%. Homes within the South East enjoyed the highest proportion of net profit, with the average figure set at 37%¹⁰. (COL L I ERS CRE, 2009)

EBITDA as a Proportion of Revenue across Different Sizes of Care Homes



For both nursing and residential homes those with less than 20 beds were the most profitable in 2008 H2, followed by those with over 50 beds. Homes with this high number of beds are often owned by large corporate operators who can utilize economies of scale to their full advantage. Nursing and residential homes with 21 to 30 beds were the least profitable in 2008 H2. (COL L I ERS CRE, 2009)

4.4.4. Profiles of Key Players

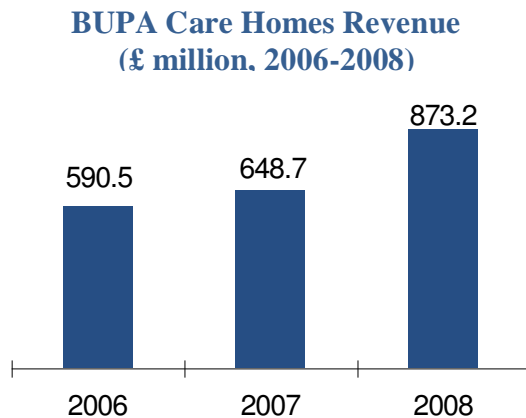
BUPA Care Home

Bupa Care Homes is one of the largest care home operator in the UK, offering services across 300 care homes in the country.

Headquartered in the UK and established in 1985, BUPA Care Homes is a subsidiary of the British United Provident Association. The company has three core business divisions including UK Insurance, International Insurance, and Care Homes, and caters to more than 10 million customers in over 190 countries. The company operates about 430 nursing and residential care homes in the UK, Spain, Australia, and New Zealand.

Bupa's Care Homes (The Elms) was given an 'Excellent' rating by the Care Quality Commission (CQC); also, it's Wentworth Croft care home scored a 'Good' rating, and was also rated as the best commercial care home provider by Laing and Buisson (May 2009).

- Bupa also opened a £5 million specialist dementia care home in Thatcham, UK (August 2008).
- Bupa acquired the Cromwell Hospital in London for £90 million, as a part its plan to create a flagship private hospital (March 2008).
- As a part of its expansion strategy, BUPA plans the opening of more care homes in Brighton, Hampshire and Worcestershire in 2009.



Revenues generated by the company's care homes segment (global) grew by 35% in 2007 to reach to £873.2 million in 2008; the underlying surplus stood at £123.9 million in 2008. An increase in the number of residents and a small fee increase from local authorities in the UK led to the increase in revenues in 2008

Source: Company Website; Company Annual Report 2008

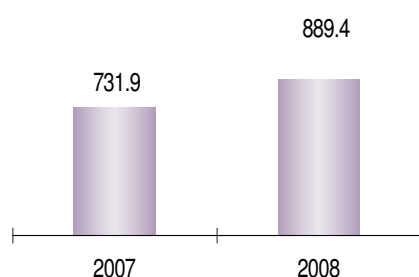
Key Statistics (February 2009)	
No. of Beds - 32,577 (global); 21,360 (UK)	
Average No. of Residents – 28,963 (global)	
Occupancy Ratio – 89.4%	
No. of Sites – 430 (global); 302 (UK)	

Southern Cross Healthcare

Southern Cross Healthcare increased its bed capacity by about 9% in 2008 over 2007, to reach a total of 37,080 beds. Southern Cross Healthcare offers a range of care services, including nursing, residential and dementia care, and is the market leader in the UK care homes sector. Southern Cross Healthcare floated on the stock market in July 2006, and was listed on the FTSE 250 index in September 2006

- The company operates through two divisions, Southern Cross Healthcare and Ashbourne Senior Living brands, which offers private care homes for the elderly; and the Active Care Partnership brand that offers a range of specialist services for people with mental health requirements
- In 2008, Southern Cross acquired Avery Healthcare Ltd for £96.5m, with it gaining another 15 homes and 845 beds for its portfolio
- As a part of its expansion strategy, 'New Build Program', Southern Cross plans to open new care centers across UK
- The company opened five new care homes, including Birch Tree Manor, Torrwood Care Centre, Hamilton House Care Center, Forth View Care Centre, and Lakeside Care Centre in the UK (2008)
- In 2007, the company acquired Focus Healthcare, a care home company with a portfolio of 29 care homes (March), and Lifestyle Care, which included 23 homes (January)

Southern Cross Health Care Homes Revenue



The increase in the number of new beds and a higher occupancy rate attributed to the 21.5% growth in revenues in 2008 over 2007

Also, the rise in average weekly fee and a 16.2% increase in the number of residents at care homes contributed to the revenue growth in 2008

Key Statistics (February 2009)

No. of Beds – 37,080 (in UK)
Average No. of Residents – 28,963
Occupancy Ratio – 89.5%
No. of Sites – 737

Source: Company Website; Company Annual Report 2008

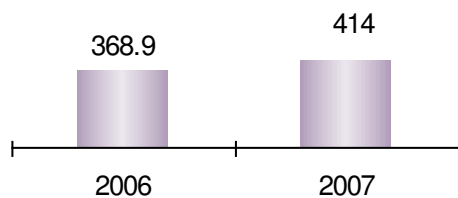
Four Seasons Healthcare

Four Seasons Healthcare is a leading independent care home provider, with more than 21,000 beds at over 446 sites in the UK. Established in 1980, Four Seasons Health Care owns and operates over 440 nursing and care homes and specialised care centres in the UK, Scotland, Northern Ireland and Isle of Man. It is the third largest company in terms of number of beds in the UK, after BUPA and Southern Cross. Four Seasons offers its services to about 15,000

people in its care and nursing homes and specialist units, and employs a staff of over 21,000 people.

The company also operates nurseries, domiciliary centres, retirement apartments and villages, as well as day centres for the elderly. Four Seasons invested about £8 million to open a Built Care Home in Edinburgh with more than 60 bed nursing and social care homes (June 2009). Recent acquisitions include the Ivy Bank care home in Bath in December 2007 and, most recently, the Bon Air Care Apartments in St Saviour in Jersey in March 2008. Ivybank House provides high quality care for up to 40 residents, aiding the care home in increasing its presence in the Bath area. Four Seasons partnered with Age Concern Sunderland (ACS), the largest charity working for older people, to offer day services to local residents (October 2008). The company jointly with Edinburgh City Council, opened the Castlegreen Care Home, offering accommodation to 60 people (December 2007).

Four Seasons Care Homes Revenue (£ million, 2006-2007)



The company's revenue increased by about 12% in 2007, over 2006

Key Statistics (February 2009)

No. of Beds – 21,154
Average No. of Residents – ~18,000
Occupancy Ratio – 87%
No. of Sites – 446

Source: Company Website; Company Annual Report 2008

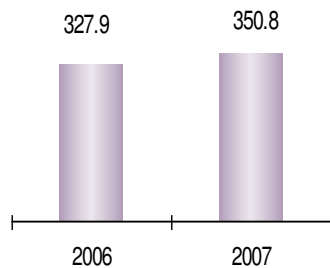
Barchester Healthcare

Barchester Healthcare provides residential and nursing care homes in about 170 sites in the UK. Established in 1993 and headquartered in the UK, Barchester Healthcare is a provider of residential and nursing home care. The company caters primarily for self-paying elderly residents; it is 50% owned by JES Barchester Holdco, with the ultimate parent company being JES Grove. The organisation offers a wide range of care services, including nursing

care for older people and consultant-led nursing care for adults with specialist healthcare needs.

- It offers experience in caring for both older and younger people with disabilities and provides personalised care and 24 hour assistance to its residents
- Its various care homes offer specialist care for conditions, such as brain injury rehabilitation, Huntington's and Parkinson's disease, dementia and physical disabilities.
- The company opened a new care home for elderly care in north-west Hampshire to increase its market presence (June 2009)

Barchester Healthcare Revenue (£ million, 2006-2007)



The company's revenue increased by about 7% in 2007 over 2006.

Key Statistics (February 2009)

No. of Beds – 11,290

No. of Sites – 171

5. Conclusions

Findings of the Market Analysis and Implications for Pfizer UK

The market analysis of the care homes market indicates the following findings –

Findings	Implications for Pfizer
<ul style="list-style-type: none"> UK's rapidly ageing population is one of the key drivers for care home demand, with the number of people aged 65+ expected to rise by nearly 60% in the next 25 years, and people over 85 predicted to double in the next 20 years. New care home registrations in the UK has witnessed a rise, driven primarily by rising occupancy rates and unprecedented price rises in the sector, driving care home demand The rapidly ageing UK population is expected to increase the average occupancy for both nursing and private homes, above the five year average of 93% (2003-2008) 	<ul style="list-style-type: none"> Given the large market size of the care home market, increasing demand, Pfizer can focus more on marketing of its established drugs to the care home sector as the sector represents a significant volume market opportunity for the commonly prevalent ailments such as dementia, cardiovascular, respiratory diseases, etc
<ul style="list-style-type: none"> Dementia is a key segment of the care home segment, accounting for about 36% of the UK care home market in 2008. 	<ul style="list-style-type: none"> Since Pfizer already has an portfolio catering to neurological drugs, growth in dementia makes the UK market as an attractive growth segment for Pfizer
<ul style="list-style-type: none"> The care home sector has witnessed strong growth with key players having witnessed double digit revenue growth rates in recent years. The average EBITDAR for the sector has been above 30% indicating strong profitability The consolidation in recent years has indicated that the larger players are looking to grab a greater share of the market. Still, the high fragmentation in the sector indicates ample room for consolidation and inorganic growth With the formation of Care Quality Commission in 2008, stricter government rules will put greater pressure on smaller operators and further increase scope for consolidation 	<ul style="list-style-type: none"> The fragmented nature of the market, attractive margins, and potential for strong top line growth indicates makes the care home market as an attractive area for a horizontal diversification strategy in the UK <ul style="list-style-type: none"> While pharmaceutical companies entering into the healthcare services space is not very evident in Europe, emerging markets with demographic drivers such as India have witnessed combined business models (such as Ranbaxy/ Fortis and Wockhardt) where pharma companies have entered the healthcare services sector

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